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RUEHRB/AMEMBASSY RABAT 1938
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RUEHTU/AMEMBASSY TUNIS 6788
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SUBJECT: GOA EAGER BUT CAUTIOUS ON FINANCIAL REFORM

¶1. SUMMARY: The Algerian Ministry of Finance leadership recognizes it should foster predictability for foreign investors, diversify its economy away from hydrocarbons and reform its financial sector. It is eager for U.S. assistance to meet these goals, but fearful of any sudden shock to its financial system particularly in the wake of the August U.S. credit crisis. Despite its stated goal of using the "overliquidity" in its budget to create financial instruments and diversification, the GOA appears likely to continue financing large infrastructure projects from its budget rather than develop domestic capital markets to finance the USD 150 billion program. END SUMMARY.

¶2. An interagency economic delegation led by Bureau of Economic Affairs PDAS Elizabeth Dibble and Commerce DAS Holly Vineyard met on September 8 with Minister Delegate Fatiha Mentouri at the Algerian Ministry of Finance. Mentouri laid out Algeria's goals in several areas and solicited U.S. assistance in key sectors to drive towards necessary financial reform.

THE DISEASE

¶3. According to Mentouri, the GOA is pursuing financial reforms along four major axes. The first of these is the need to enhance the payments system, and to replace cash transactions with checks, credit cards and other tools. She acknowledged that transparency and traceability would be central to these efforts in order to combat terrorist financing. The second axis is the modernization of the information systems critical to the operation of a modern bank.

¶4. Mentouri identified the mortgage sector as the third major area for improvement. Demand, she said, is very high, but the GOA was very "cautious after what happened in the U.S. in August." Finally, Mentouri pointed to the hyperliquidity that exists in the Algerian economy and asserted that the GOA needed to assess credit risk as a first step towards putting this wealth to work. Foreign bank expertise, she said, would be critical towards this end.

THE CURE

¶5. Mentouri expressed a clear GOA desire to have a U.S. bank

team visit "and stay" in Algeria, in order to embed itself in Algerian financial services and assist the finance ministry on the road to reform. She also solicited U.S. input to provide training on risk assessment, so that Algeria could adopt the U.S. standard both on risk assessment and also on loans and investment in small and medium enterprises. Mentouri acknowledged Algeria's need to mobilize its massive savings to diversify its economy and encourage investors, and hoped the U.S. would be able to help Algeria create the financial instruments to do so.

¶6. PDAS Dibble and Treasury regional attache Alex Severens highlighted the positive impact that a successful bank privatization would have on encouraging other foreign banks to come to Algeria. Dibble pointed out that the large-scale English language training desired by the GOA would accompany the daily operations and cooperation of an American bank bidding to buy the Algerian state-owned Credit Populaire bank. Mentouri said the GOA is "totally convinced" of the value and expertise it would gain from the presence of a large U.S. bank but she was careful not to predict which way the sale would go.

¶7. The Ambassador referred to plans to secure U.S. technical assistance for the Algerians in the area of mortgage markets and small business lending later this year. He pointed to the October ministerial meetings with the International Monetary Fund in Washington, and offered to help arrange Algerian visits to Fannie Mae and the Small Business Administration on the side. Mentouri was enthusiastic about the idea and said she would recommend this to her superiors.

COMMENT: TALK IS CHEAP

ALGIERS 00001330 002 OF 002

¶8. Mentouri was clear and straightforward about the GOA desire to have U.S. advice and assistance in financial services reform, and appeared to recognize the urgency in showing some kind of concrete steps to attract foreign banks and businesses to Algeria. Since the overall value of the infrastructure program now is approaching USD 150 billion, developing a domestic financial market would eventually help financing the ambitious program. However, in informal, off-hand remarks at the conclusion of the meeting, she made it clear that the GOA would also continue to finance large-scale infrastructure projects such as the East-West highway from its cash budget rather than from any kind of capital market. (Indeed, we are hearing that the GoA is moving to extinguish much of the public debt.) By contrast, the GoA is moving ahead on banking reform. It wants to engage the Treasury Department's help with a revamping of its banking supervision system, and also move ahead with the major privatization decision on Credit Populaire d'Algerie. The GOA is thus not plunging ahead across the board on financial sector reform. It is, instead, moving ahead in a very cautious and controlled manner. What remains unclear is whether it is possible for the GOA to move slowly and in only limited areas and still fix a financial sector that all economic observers acknowledge is a huge brake on economic growth.

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